

An Overview of HSAs, HRAs & FSAs

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	HSA	HRA	FSA
Who establishes?	Individual	Employer	Employer
Who is eligible?	Individual with “high deductible health plan” (“ <u>HDHP</u> ”), with <u>no other health care coverage</u> (exceptions apply) and <u>not Medicare enrolled</u>	Employees, as determined by employer (eligibility rules must meet IRC nondiscrimination standards); can use with any kind of health care plan; other health care coverage permitted; Medicare eligible/enrolled individuals can be covered	Same as for HRA
Who contributes?	Individual (employee) or employer (employer contributions must be made in behalf of all “comparable participating employees”)	<u>Employer only</u>	Employer or employee
Available to pay health insurance premiums?	<u>No, before age 65</u> (except for long-term care insurance and COBRA premiums); yes, after age 65 (but not for Medicare supplemental insurance)	Yes (for both before and after employment)	<u>No</u>
Can non-medical expenses be paid with account?	<u>Yes, funds in account can be used for any purpose</u> (but, if not used for qualified medical expenses, amounts are taxed and a 10% penalty tax is imposed – no penalty tax if payment made after age 65, death or disability)	No, only qualified medical expenses, including health insurance premiums	Same as HRA, except no health insurance premiums can be paid
Can contributions be made through a cafeteria plan?	Yes	<u>No</u>	Yes

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Is account portable after employment termination?	<u>Yes</u> , account belongs to individual/employee	No, but can be used for medical expenses of former employee if employer sets up HRA to do that (e.g., to fund retiree medical expenses)	No (except for expenses incurred prior to employment termination or for required COBRA coverage)
Can account balance be carried over from year to year?	Yes	Yes, if employer designs the HRA to permit this	<u>No</u> , except for limited 2½ month carryover recently permitted by IRS
Are there limits on contributions?	<u>Yes</u> , limit is \$2,850 (for 2007) for individual coverage or \$5,650 (for 2007) for family coverage; \$800 “catch-up” contribution available for 2007 if age 55 or over; will increase to \$1,000 in 2009	No, other than limit imposed by employer or needed to comply with nondiscrimination requirements	Same as HRA
Are contributions deductible/excludable from income?	Yes, employee contributions deductible; employer contributions excludable (“excess” contributions are taxable and subject to a 6% penalty tax if not withdrawn by tax return due date)	No employee contributions permitted; employer contributions excludable	Yes, employer and employee contributions are excludable
Are contributions subject to FICA tax or FUTA	No, for employer; <u>yes, for employee</u> , unless made through cafeteria plan	Not applicable for employee (no employee contributions permitted); no, for employer	No, for both employee and employer
Are accounts covered by ERISA, including COBRA?	No, if DOL requirements are met	Yes (but not if church plan)	Yes (but not if church plan)
Can account coordinate benefit payments with another kind of account?	Cannot be used in conjunction with HRA or FSA, unless the HRA or FSA is a “limited purpose” or “post-deductible” health HRA/FSA, or a “suspended” or “retirement” HRA	Can coordinate with FSA	Can coordinate with HRAs
Who invests account assets?	<u>Individual/employee</u>	Employer, if funded (but no requirement that HRA actually be funded)	Same as HRA
Must expenses be substantiated?	<u>No</u> , unless on IRS audit	Yes	Yes

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What happens to account on death or divorce?	<u>If spouse is beneficiary, HSA continues for spouse; if non-spouse beneficiary, HSA terminates and beneficiary is taxed</u> on account value; HSA can be transferred on divorce on a non-taxable basis; transferred amount still considered to be an HSA	<u>COBRA coverage available</u> for surviving or divorced spouse or dependents to spend down account	Same as HRA